

Reviving Homeownership: Solutions for First-Time Home Buyers



**Joint Informational Hearing
Assembly Banking and Housing Committees
Paul Leonard
March 25, 2015**

About Self-Help & CRL

Self Help Credit Union, since 1980

- Lending to low-wealth communities
- People of color, women, rural residents
- \$6 billion in loans to almost 70,000 families & organizations
- Self-Help Federal CU: 20 Branches in California

Center for Responsible Lending, since 2002

- Use lending experience to shape policy
- Protect homeownership & family wealth

- Federal Policy Levers Most Critical
- State Priorities
 - Downpayment Assistance
 - Deeper Targeting of Mortgage Loans
 - Convene Stakeholders

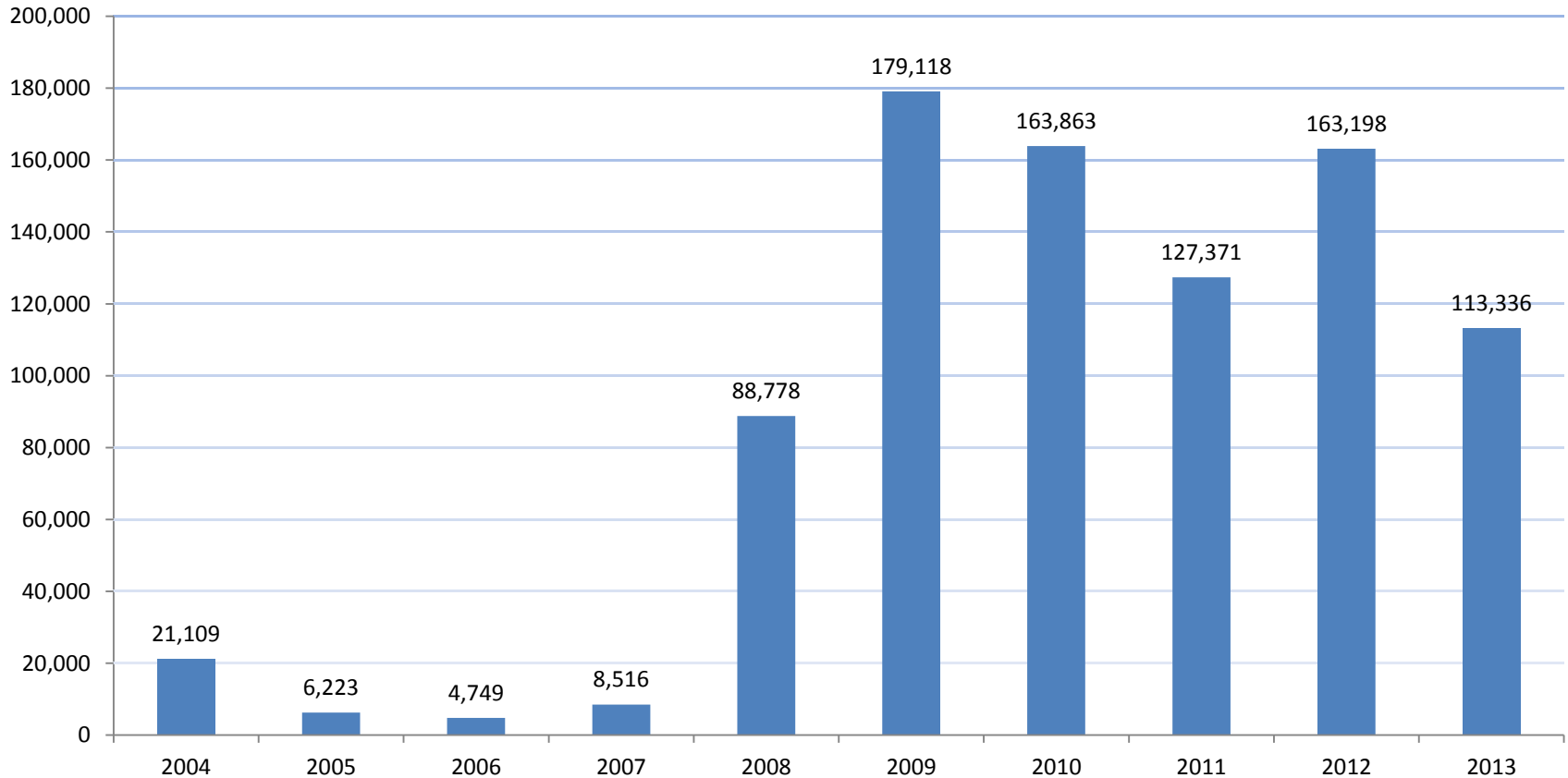
- Economic and Housing Price Recovery
- Job Growth
- Wage Increases
- Address Widening Economic Inequality
 - Reduces Negative Equity which is concentrated in lower price areas, increasing available supply and more qualified borrowers.

Federal Policy Levers Most Critical

- FHA
- FHFA/GSEs
- Preservation of Dodd-Frank Protections

FHA is Major Source of Purchase Mortgages in CA

CA FHA Purchase Loans, 2004-2013



3.5% Down Makes FHA Key Source of First-Time Buyers

- FHA: 80 percent of lending is FTHB; FHA insures nearly 50% of Black and Hispanic Purchases
- After post-crisis surge in credit scores, FHA is trending back to borrowers in 620-680 FICO range

FHA Borrowers by Credit Score
2008-2014



FHA Lender Overlays Remain a Barrier to Access

- FHA provides 100% insurance for borrowers with credit scores as low as 580
- Many lenders apply “overlays” setting minimum credit scores of 640 or 660
- Lenders concerned about indemnification
- FHA working on proposals to address, with some progress.

FHA pricing

- Substantial increase of mortgage insurance premiums to restore capital after crisis.
- Recent 50 basis point reduction should expand the pool of eligible borrowers who were previously priced out.

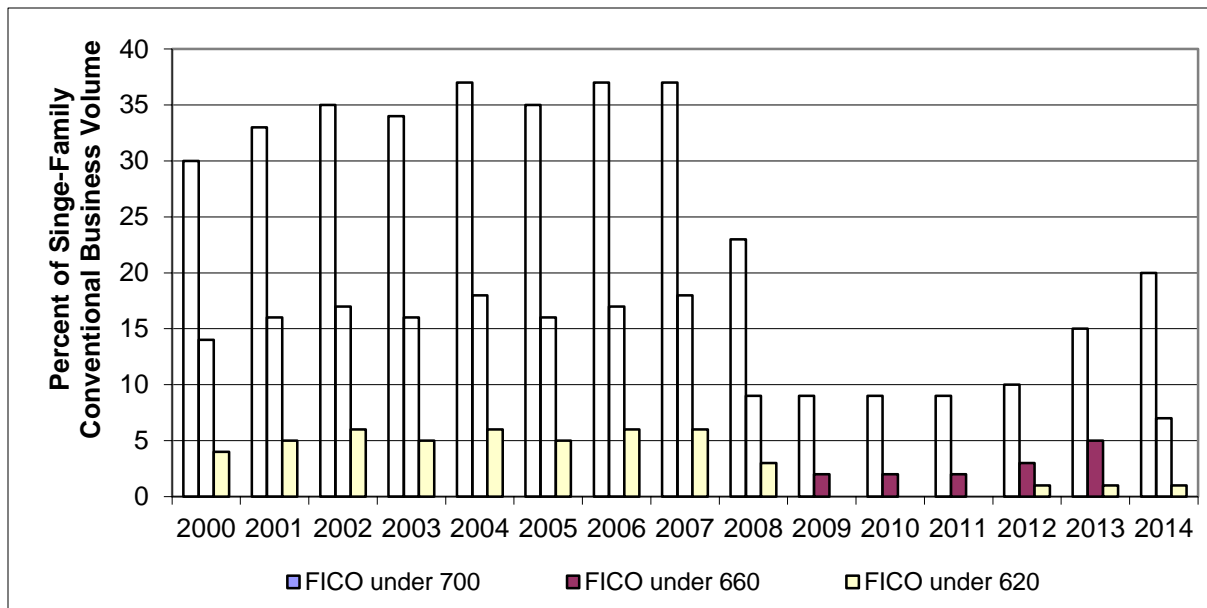
FHA Policy Threats Could Disproportionately Harm CA

Proposed Legislative Reforms Passed by House in PATH Act

- Lower Loan Limits
- Increase minimum down payment from 3.5% to 5%
- Set Maximum Income Limits
- Risk Based Price

Tight Lending Standards Have Limited GSE FTHB Lending

Fannie Mae



Very tight lending standards

- Fannie Average Purchaser: 755 FICO
- 2011-12: 5-6% of GSE guarantees for FTHB

FHFA Committed to Promoting Responsible Access

- Resumption of 97% LTV lending:
 - *Will lenders offer these loans?*
- Clarify Representations and Warranties
- Approved Funding for Affordable Housing Trust Fund and Capital Magnet Fund
- Forthcoming changes
 - Pricing
 - Affordable Housing Goals

Over-Correction in Lending Standards

- Tight Lending Standards Result in 300K fewer CA purchase loans than 2001 standards (Urban Institute)

Dodd-Frank Regulatory Reform Under Siege

- CFPB created to monitor and regulate
- New Qualified Mortgage rules on originations creates a floor for safe lending
 - Ability to Repay
 - Stable Loan Products
- Broad range of bills to undo reforms

- Maximize CalHFA Resources
 - Down Payment Assistance
 - Aggressively Target Mortgages
- Invest in Financial Coaching and Pre and Post Purchase Homeownership Counseling
- Convene Stakeholder Roundtable
 - Policymakers, Lenders, Realtors, Advocates



Questions/Contact Information

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- Racial Disparities
- Barriers to Access
- A Model for Responsible Mortgage Lending

CRL Research Finds CA Minorities Bear Disproportionate Share of Foreclosures



- Latino and African-American borrowers in California have experienced rates 2.3 and 1.9 times that of non-Hispanic white borrowers.
- Almost half of all California foreclosures have been from Latino borrowers.

Dreams Deferred:

Impacts and Characteristics of the
California Foreclosure Crisis

Minority Market Share of Mortgages 2005 vs 2012

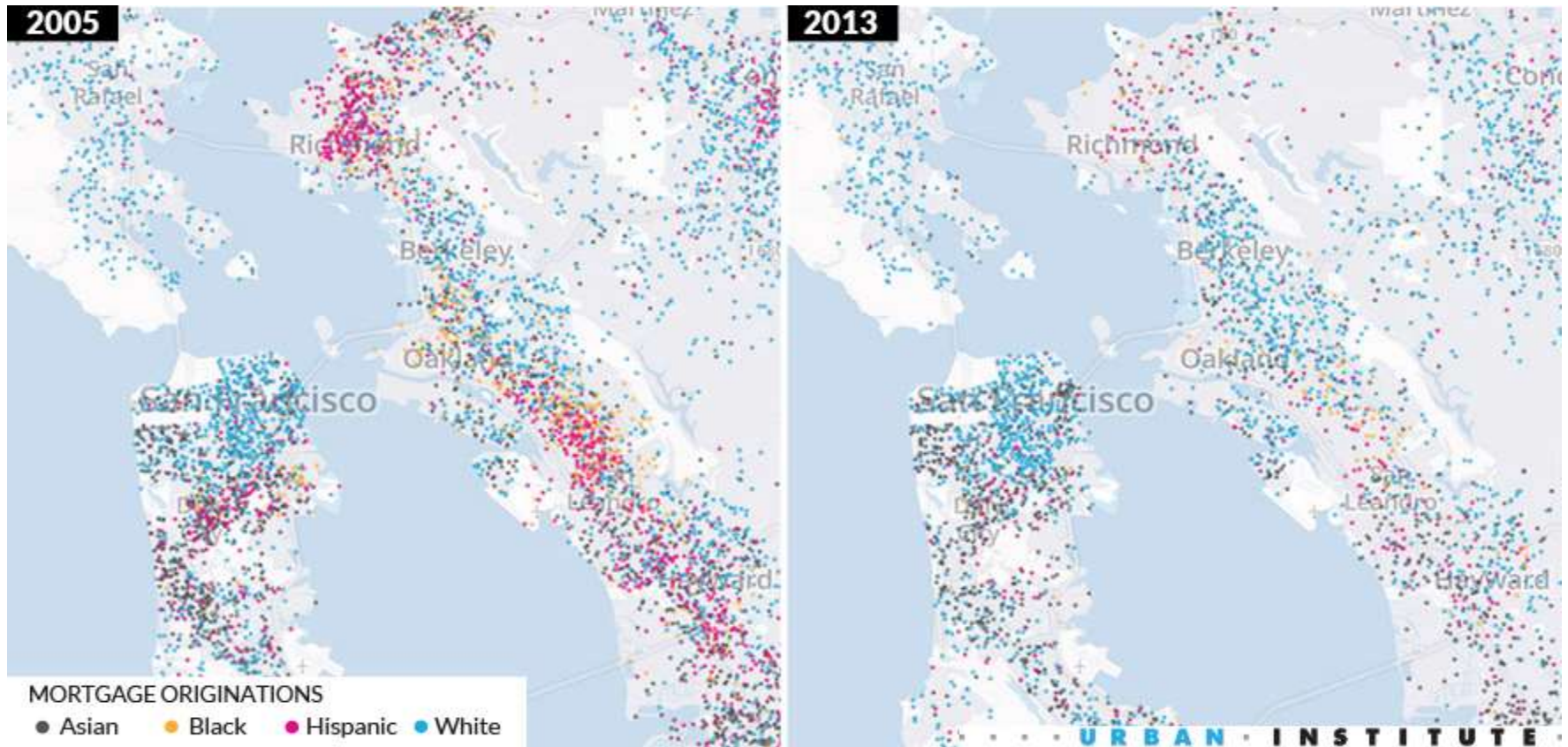
Steep Declines for African-Americans and Hispanics In Los Angeles and Bay Area



Source: Home Mortgage Disclosure Act.

URBAN INSTITUTE

CA MSAs Lead Nation in Racial Disparity of Mortgage Market Recovery: San Francisco/Oakland MSA

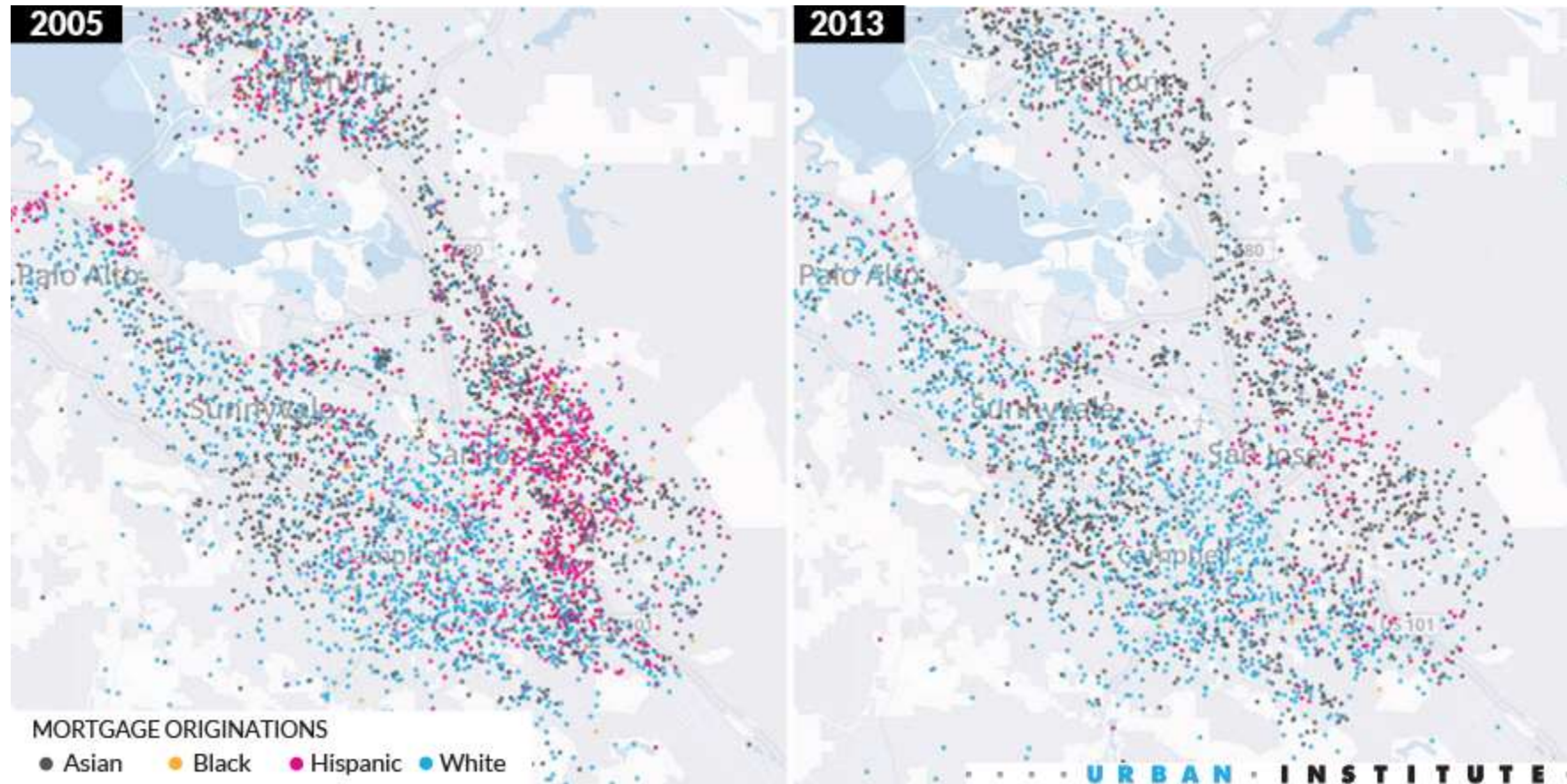


Loans to African-Americans and Hispanics 2005-2013: -84.8 percent

Loans to non-Hispanic whites: -49.8 percent

Difference: 35.0 percent

CA MSAs Lead Nation in Racial Disparity of Mortgage Market Recovery: San Jose-Sunnyvale



Loans to African-Americans and Hispanics 2005-2013: -88.4 percent

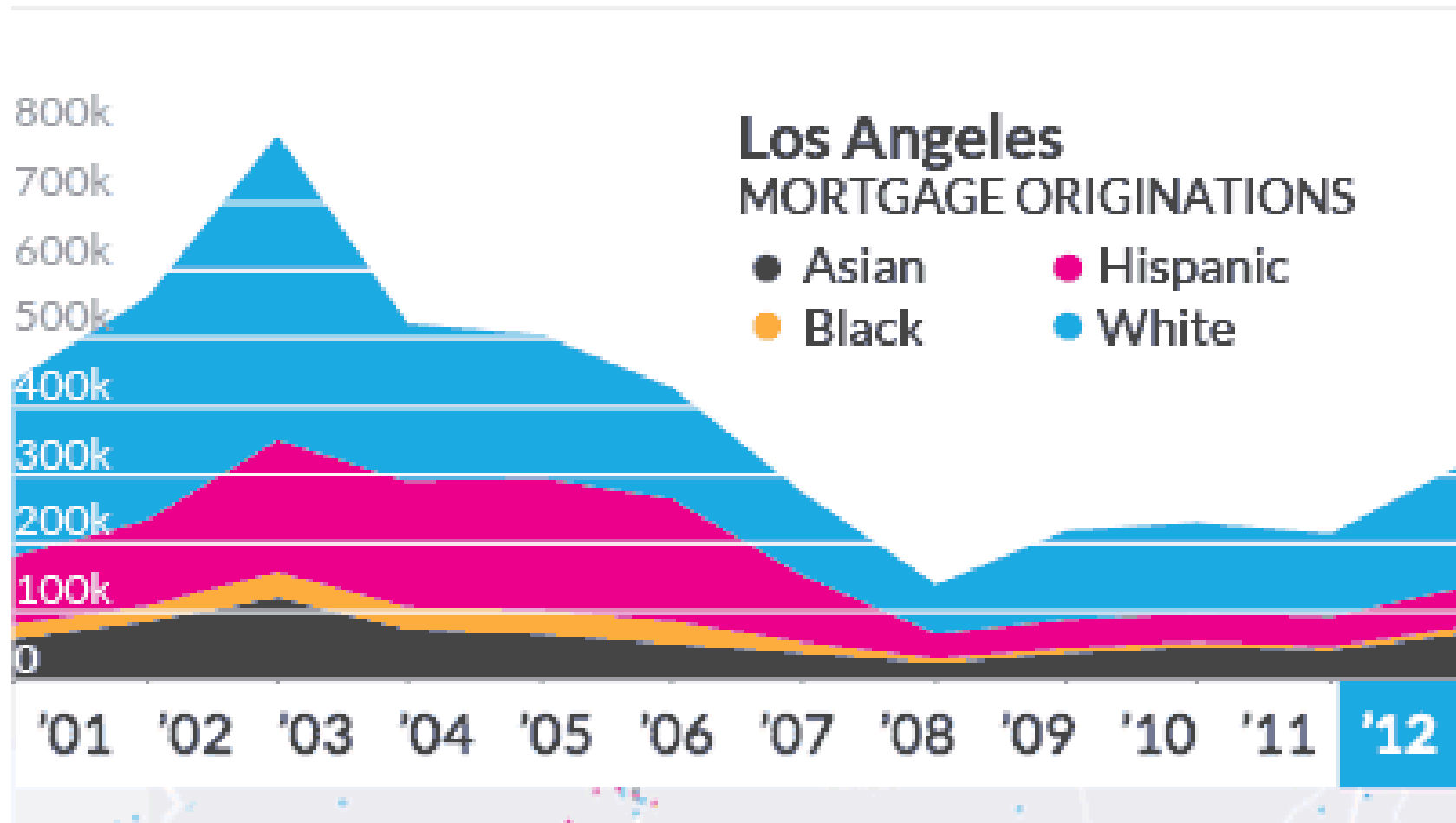
Loans to non-Hispanic whites: -52.6 percent

Difference: 35.8 percent

CA African-Americans Account for Smaller Purchase Share in 2013

- Blacks Underrepresented in Purchase Mortgages in 2013
 - Nationally, African-Americans received 125,520 out of 2.7 million purchase mortgages – 4.7%
- **But Share is Even Lower in California:**
 - CA African-Americans received only 6,572 purchase mortgages out of 268,157 purchases total – Just 2.5%
- CA Black Population: 6.6%

Only 1,931 Black Purchase Loans in Los Angeles in 2013



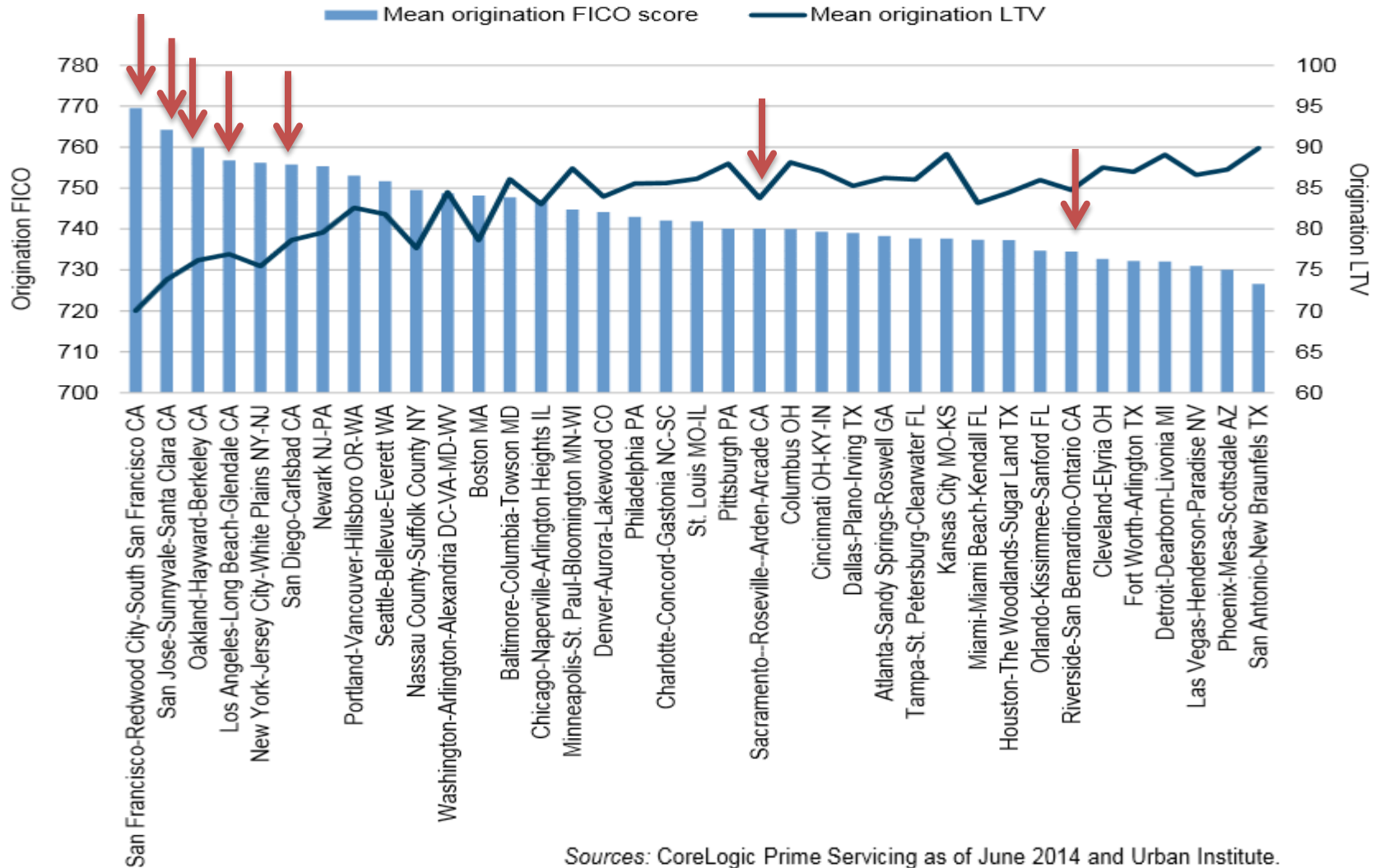
Urban Institute: HMDA calculations

Causes

High Costs
Tight Lending Standards
Competition with Cash Buyers

Many CA Markets Have Tightest Lending Standards

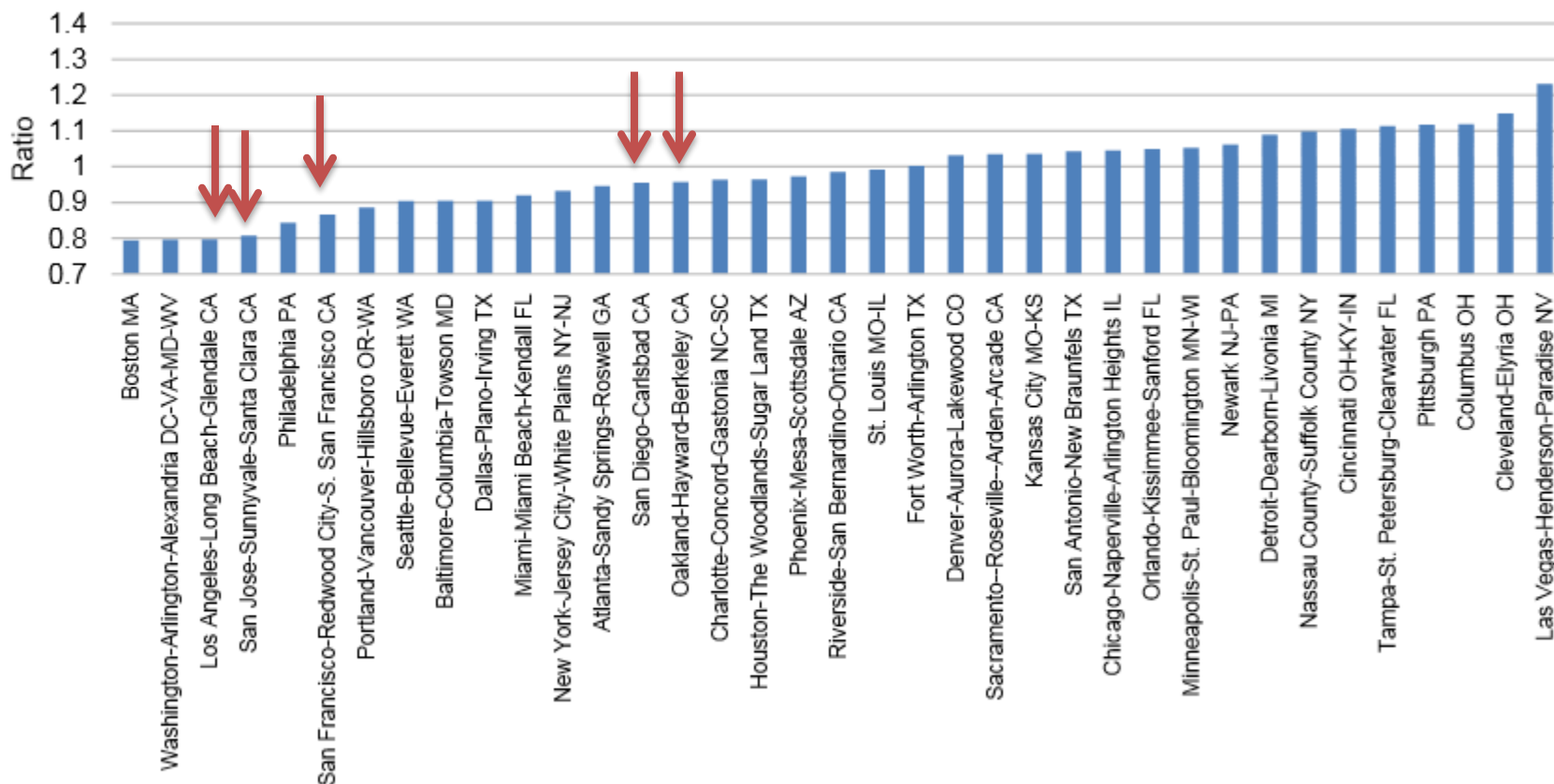
Origination FICO and LTV by MSA



Sources: CoreLogic Prime Servicing as of June 2014 and Urban Institute.
Note: Purchase-only loans.

Lowest Affordability in Many CA Markets

Affordability Adjusted for MSA-Level DTI

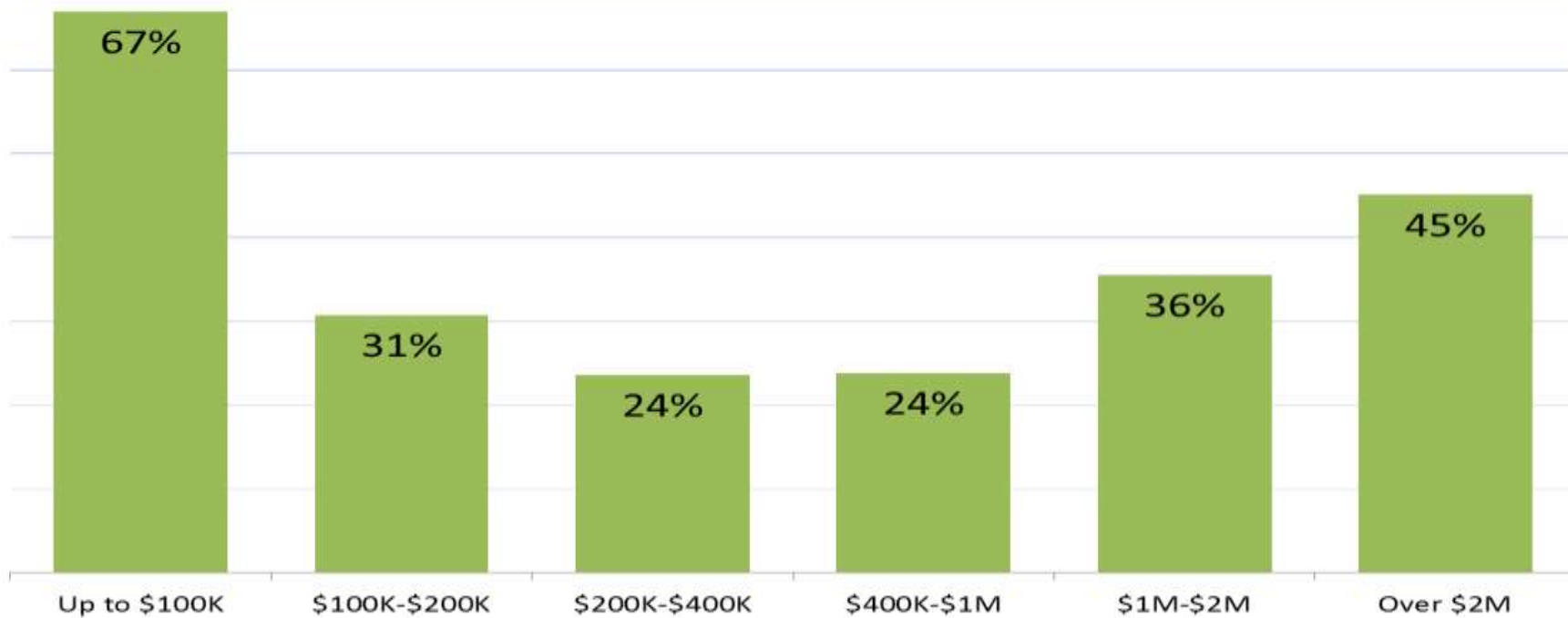


Sources: CoreLogic, US Census, Freddie Mac and UI calculations based on NAR methodology.

Note: Affordability index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in June 2014 than in 2000-03.

Low End Borrowers Compete With All-Cash Buyers

Cash Sale Share by Price Range



A Responsible Subprime Model for Lending

UNC Center for Community Capital
Research on Self-Help Lending:
*Lower-Income Borrowers
Can Be Served Safely and
Responsibly*

The Community Advantage Program

46,453 fixed-rate loans

Most (72%) put down less
than 5%

1/2 < 680
credit score

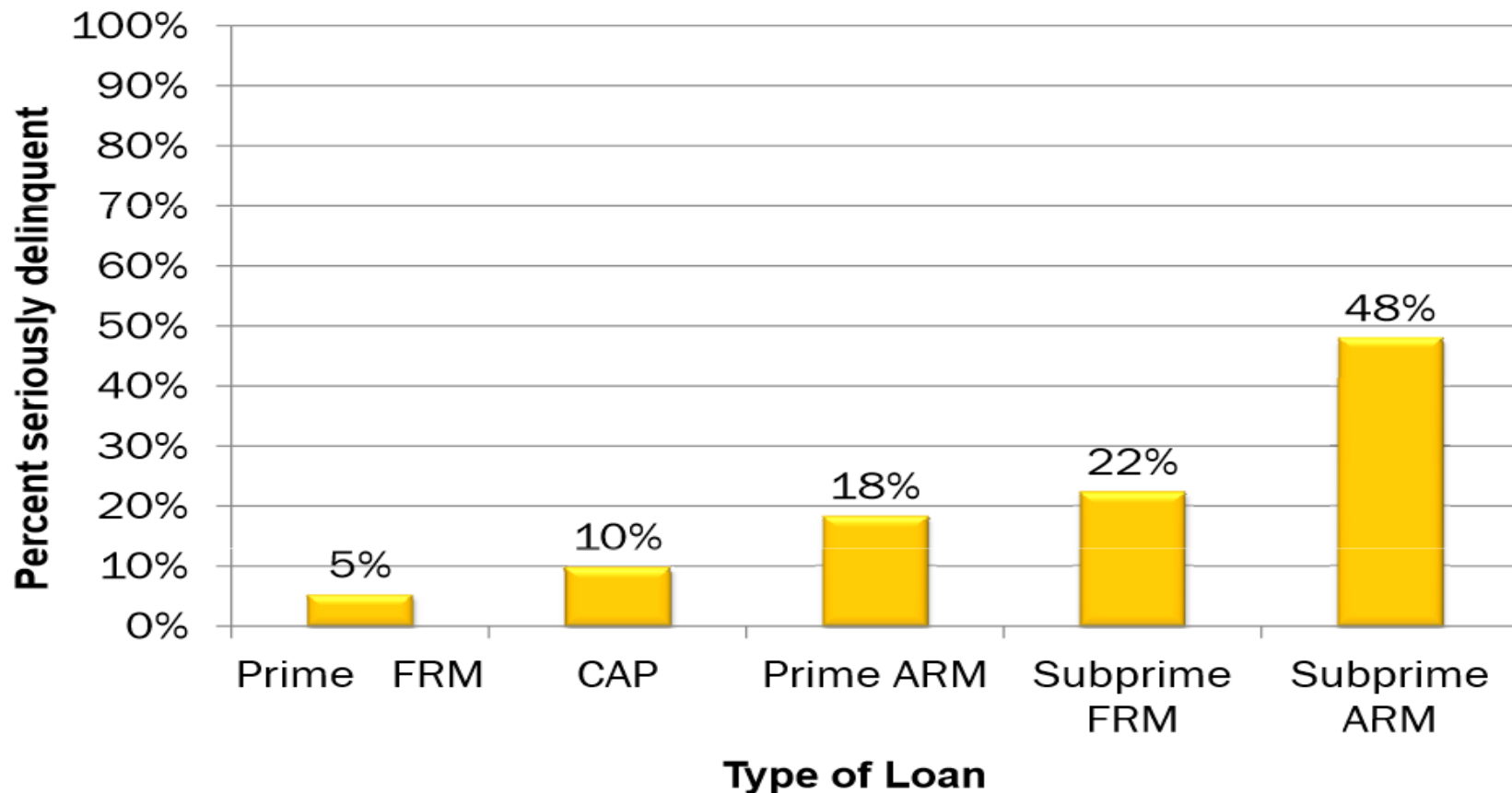
\$30,792
median
income

41% female-
headed

40%
minority

CAP loans perform well during crisis

The Worst of the Mortgage Crisis (2009:Q4)



CAP Median Equity and Appreciation as of 2014, Q1

Statistic	Value
Annualized Price Appreciation since Origination	2%
Annualized Return on Equity since Origination	23%
Annualized Return to Dow (same period)	4.08%
Annualized Return to 10 Year Treasury Note (same period)	5.45%
Equity Change since Origination	\$23,341
Total Equity	\$26,734

Minimum Down Payment Requirements Limit Access

**Years-to-Save for a Down Payment Mandate for Families with Median Incomes
(2011 figures)**

	5% Down Payment Mandate + Closing Costs	10% Down Payment Mandate + Closing Costs
Median Income for All Households (\$50,502)	11 years	17 years
Median Income for White Households (\$55,305)	10 years	16 years
Median Income for Latino Households (\$39,232)	13 years	22 years
Median Income for African-American Households (\$33,232)	16 years	26 years